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Foreclosure Prevention Efforts Declining and "Disappointing"

State Foreclosure Prevention Working Group Issues Third Report on Performance of Sub-prime Mortgage Servicing Companies

Eight Out of Ten Seriously Delinquent Homeowners Are Not on Track for Any Loss-mitigation Outcome

(Phoenix, Ariz.—Sept. 29, 2008) Industry measures to keep homeowners out of foreclosure have slipped, according to the State Foreclosure Prevention Working Group -- a group of state attorneys general and state banking regulators working to prevent home foreclosures.

"Too many homeowners face foreclosure without receiving any meaningful assistance by their mortgage servicer," the report concluded, "a reality that is growing worse rather than better, as the number of delinquent loans, prime and subprime, increases."

The Working Group issued its third "Analysis of Subprime Mortgage Servicing Performance," based on data collected from subprime mortgage servicers for the period February through May 2008. The report said nearly eight out of ten seriously delinquent homeowners are not on track for any loan work-out or loss mitigation assistance to enable them to avoid foreclosure, a higher percentage than the Group found in its April report. Leaders of the Group are scheduled to conduct a telephone news conference at 12 noon EDT Monday on their new report.

"With over 14,000 foreclosure and pre-foreclosure filings in August of this year alone, Arizona continues to have one of the highest foreclosure rates in the nation," Goddard said. "Unfortunately, today's report shows that most Arizonans facing foreclosure are not on track to avoid losing their homes. I am committed to working with servicers and regulators to find new solutions to this growing problem."

The Working Group's third report concluded: "While some progress has been made in preventing foreclosures, the empirical evidence is profoundly disappointing."

"Servicers appear to have reached the 'low-hanging fruit' of subprime loans facing interest rate resets, while not developing effective approaches to address the bulk of subprime loans which are in default before interest rate resets," the report said. "Based on the rising number of delinquent prime loans and projected numbers of payment option ARM loans facing reset over the next two years, we fear that continued reactive approaches will lead to another wave of unnecessary and preventable foreclosures."

The report says "the number of loans on track for a loan modification has declined precipitously" in recent months. "The mortgage industry's failure to develop systematic approaches to prevent foreclosures has only spurred declines in property values and further increased expected losses on mortgage loan portfolios," according to the state officials' new report.

"We are troubled that more homeowners are not receiving enough meaningful assistance to avoid unnecessary and preventable foreclosures," said Iowa Attorney General, Tom Miller, a founder and leader of the State Foreclosure Prevention Working Group. "While banks and Wall Street firms continue to report record write-downs of mortgage loan portfolios and securities, the losses do not appear to be flowing down to homeowners in the form of sustainable loan modifications."

"The financial turmoil we see today is in part a result of a pennywise, pound-foolish approach of the mortgage industry to preventing foreclosures," said North Carolina Deputy Commissioner of Banks, Mark Pearce. "Instead of developing efficient approaches to reduce the payment burdens of large numbers of unaffordable loans, mortgage servicers have relied on the same approach used before the foreclosure crisis. The result has been record levels of unnecessary foreclosures that have accelerated declines in property values that have affected all of us."

"While we focus this week on the historic legislative changes underway to address the liquidity crisis impacting the entire financial market, we can not lose sight of the continued crisis facing homeowners across the country at risk of losing their homes," said Richard H. Neiman, Superintendent of Banks for New York. "We will never succeed in righting the economy and stabilizing the markets, unless all institutions, regardless of charter type, work together to implement sustainable solutions to avoid unnecessary foreclosures."

Major findings of the Foreclosure Working Group third report:

1. Nearly eight out of ten seriously delinquent homeowners are not on track for any loss mitigation outcome. Previously, seven out of ten homeowners were not on track for any loss mitigation outcome. "This already disappointing ratio has become even worse, with 40,000 fewer loans in loss mitigation in May 2008 than in January 2008," the report said.

2. New efforts to prevent foreclosures are on the decline, despite a temporary increase in loan modifications through the 2nd Quarter of 2008. The number of homeowners working toward a loan modification has fallen to a level not seen since late in 2007, the report said. This 28% decline of loan modifications in process between January and May stands in stark contrast to the 51% increase in loan modifications closed over this same period. This declining trend of new loans in process suggests that current loan modification approaches have been tailored to a limited group of homeowners. Instead of expanding loan modification options to reach a broader set of homeowners, more loss mitigation is being directed to selling homes short of foreclosure. In January, modifications in process outnumbered short sales in process by four to one; in May, that ratio had dropped to two to one.

3. One out of five loan modifications made in the past year is currently delinquent. The high number of previously-modified loans currently delinquent indicates that a significant number of modifications offered to homeowners has not been sustainable. Recent reports identify that many loan modifications are not providing any monthly payment relief to struggling

homeowners. We are concerned that unrealistic or 'band-aid' modifications have only exacerbated and prolonged the current foreclosure crisis, the report said.

4. Three hundred thousand subprime loans are in the process of foreclosure as of the end of May 2008. Thirty-eight percent (38%) of seriously delinquent subprime loans are in the process of foreclosure, with over 131,000 foreclosures completed on subprime loans in May 2008 alone.

The report also noted: The State Working Group hopes that recently enacted federal legislation to provide a new federally-guaranteed refinance program (Hope for Homeowners) will increase the level of refinancing for poorly performing subprime loans; however, the ultimate impact of that program has not yet been seen. Recent federal government interventions in the mortgage and financial markets offer an opportunity to develop more options for homeowners and better systematic loan modification approaches. While the federal government struggles with the implications of the recent financial markets crisis, state and local governments continue to implement new and innovative approaches to slow the pace of foreclosures that are devastating their communities.

About The State Foreclosure Prevention Working Group

The State Foreclosure Prevention Working Group began as a cooperative dialogue of state officials and mortgage servicers in September 2007. Since October 2007, the Working Group has been collecting data from the largest subprime mortgage servicers, with 13 of the largest 20 servicers participating, representing approximately 60 percent of subprime mortgage loans serviced.

The State Foreclosure Working Group is led by representatives of the Attorneys General of 11 states (Arizona, California, Colorado, Iowa, Illinois, Massachusetts, Michigan, New York, North Carolina, Ohio and Texas), two state banking departments (New York and North Carolina), and the Conference of State Bank Supervisors.

The Group's first report was issued February 7, 2008, and the second on April 22, 2008. Copies of all three reports are available at the Arizona Attorney General's Web site, www.azag.gov, as well as www.csbs.org and www.banking.state.ny.us.

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